Materials Distribution

Annual Report

FOR THE YEAR ENDED MARCH 31, 2001

A SPECIAL OPERATING AGENCY
OF MANITOBA TRANSPORTATION
AND GOVERNMENT SERVICES

MATERIALS
DISTRIBUTION
AGENCY

102-00401/

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MATERIALS DISTRIBUTION AGENCY

MINISTER OF TRANSPORTATION
AND GOVERNMENT SERVICES

Room 203
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

July 13, 2001

The Honourable Peter M. Liba
Lieutenant Governor of Manitoba
235 Legislative Building
Winnipeg, Manitoba
R3C 0V8

May It Please Your Honour:

I have the privilege of presenting the Annual Report of Materials Distribution Agency (MDA) for the year ended March 31, 2001.

This report marks the completion of MDA's eighth year as a Special Operating Agency (SOA) and its 27th year of providing the Province and the broader public sector with high quality, cost-effective centralized materials management services.

Along with other Manitoba SOAs, MDA continues to function in a business-like manner and to display a successful annual operating performance, in large part because its employees have learned to focus on customer-first service. The MDA management and staff are to be commended on their continuing dedication and commitment to service excellence.

Respectfully submitted,

Steve Ashton
Minister Responsible for
Materials Distribution Agency

Manitoba

Deputy Minister of
Government Services

332 Legislative Building
Winnipeg MB R3C 0V8

Telephone: (204) 945-4414
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July 13, 2001

The Honourable Steve Ashton
Minister Responsible for Materials Distribution Agency
Department of Transportation and Government Services
Room 203, Legislative Building
Winnipeg, Manitoba R3C 0V8

Dear Mr. Minister:

I am very pleased to submit for your review and consideration the Annual Report of Materials Distribution Agency (MDA) for the year ended March 31, 2001. This Report marks the completion of MDA's eighth year as a Special Operating Agency.

Of the eight distinct commodity lines warehoused and distributed by MDA, it is primarily within the health area that increased growth opportunities continue to arise. During 2000/01, MDA staff worked towards solidifying the Agency's relationship with the 12 Regional Health Authorities within the Province. As more personal care homes, public health offices and hospitals access a wider variety of supplies and equipment through the Agency, it is anticipated that these relationships will become even more important.

A review of the 2000/01 performance information and operating results once again portrays the obvious commitment and dedication exhibited by the MDA management and staff. I am both personally and as the chairperson of the Advisory Board extremely pleased with the continued success and direction of MDA.

Respectfully submitted,

Gerry Berezuk
A/Deputy Minister and Chairperson of the
Materials Distribution Agency Advisory Board

CHIEF OPERATING OFFICER'S MESSAGE

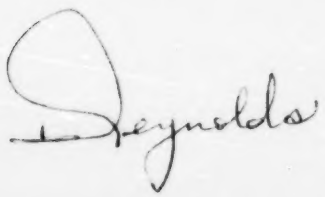
To the Stakeholders of
Materials Distribution Agency

The 2000/01 year from both an operations and financial point of view must be labeled a huge success. It can be looked at in no other way. Net income generated during the year more than met our operating requirements, and provided $525 in revenue sharing payments to the Consolidated Fund. The Agency's balance sheet continues to be one envied by many of the other Special Operating Agencies.

Unfortunately, I was not here to share in the many successes enjoyed by the Agency's management and staff during the year. My term as Acting Chief Operating Officer only began in the latter part of May 2001, long after the final decisions affecting 2000/01 had been put to bed. It is therefore only my privilege and pleasure to write about them and, in doing so, to congratulate the management and staff at MDA on their outstanding performance.

Looking ahead, there are several exciting projects that we are currently investigating, some of which we hope might bear fruit in 2001/02 and future years. As we continue to work with the relatively new Regional Health Authorities to meet their materials and equipment requirements in the Healthcare field, several opportunities have already presented themselves. We are also working with another Special Operating Agency that is considering us for a role as their warehousing and distribution arm.

In addition to the management and staff at MDA, already congratulated above, I would like to extend, on behalf of the Agency, my appreciation to the many other stakeholders, clients and partners that helped to "make a difference" this past year. The numerous accomplishments recorded in this Annual Report could not have been achieved without you.



Bill Reynolds
A/Chief Operating Officer of
Materials Distribution Agency
July 6, 2001

ADVISORY BOARD MEMBERS

Gerry Berezuk A/Deputy Minister Manitoba Government Services	Chairman
Norm Fiske Partner Sill & Company, Chartered Accountants	Member
John Hosang Assistant Deputy Minister Manitoba Transportation and Government Services	Member
F. A. (Al) Macatavish Retired Vice-President, Transmissions and Distributions Manitoba Hydro	Member
Raymond West Retired Chairman of the Board A. E. McKenzie Co. Ltd.	Member
Dan Thagard Staff Representative Materials Distribution Agency	Member
Tracey Danowski A/Assistant Deputy Minister Manitoba Government Services	Member (ex officio)
Bill Reynolds A/Chief Operating Officer Materials Distribution Agency	Member (ex officio)

AGENCY MANAGEMENT

Bill Reynolds	A/Chief Operating Officer
Ted Norrington	A/Controller
Kathy Demchuk	Marketing Manager
Barry Killbery	A/Warehouse Manager
Rhonda Boyd	A/Equipment Manager
Robert Bryk	Inventory Manager
Robert Nicholls	Transportation Manager

BACKGROUND TO MATERIALS DISTRIBUTION AGENCY

Materials Distribution was created in 1974 to provide centralized materials management services for government departments, boards, commissions and agencies. By taking advantage of economies of scale, the organization was established to provide government with lower overall costs in materials management. The Agency's mandate is to cost-effectively meet the supply requirements of a wide spectrum of organizations within the broader public service, including provincial, federal and municipal governments.

To further its pursuit in providing excellent service and dedicated attention to customer needs, Materials Distribution Agency (MDA) was established as a Special Operating Agency (SOA) on April 1, 1993. The Agency is designated and its Charter is established in accordance with the Special Operating Agencies Financing Authority Act.

Conditions of financial restraint, socio-economic trends, rapid changes in the global economy, and increasing client expectations have caused governments to explore new and increasingly innovative program and service delivery solutions. The SOA concept reflects government's realization of the need to change to support:

- Improved service to clients;
- Increased latitude for innovation;
- Empowerment of public servants;
- Better management of people; and
- Clearly defined accountability for results.

Special Operating Agencies are operational organizations within departmental structures which deliver services. The SOA operates under a Treasury Board and departmentally-approved business plan. In addition, accountability relationships are defined by its Charter and Schedule of Delegated Authorities. These framework documents lay out target commitments for service levels and financial performance.

MDA has been accorded more direct responsibility for results, and management has received additional flexibility to make decisions affecting:

- Staffing;
- Capital investments;
- Rate setting; and
- Financial systems and accounting procedures.

MISSION

The Agency's mission as stated in its Charter is:

> To provide the Province of Manitoba and the broader public sector with excellent materials management services at the lowest possible cost and greatest value.

Four founding principles support the Agency's mission:

- Excellence in customer service;
- Commitment to teamwork;
- Dedication to continuous improvement; and
- Flexibility to meet customer needs.

GOALS AND OBJECTIVES

The goal of the Agency as defined in its 2000/01 Business Plan is:

> As the Supplier of Choice for the Province of Manitoba and the broader public sector, to provide our customers with superior service and best value pricing to meet their materials management expectations.

The Agency is governed by the following six objectives defined in its Business Plan:

- To provide customers with efficient and effective inventory, warehousing, transportation, equipment management, storage and disposal services that offers superior service, outstanding selection and better value for money than they could otherwise achieve;
- To run operations according to best business practices;

- To maintain and renew order processing, operating equipment and other assets, in light of changing operational needs;

- To follow best public and private sector employment practices and to continually encourage staff involvement in all aspects of operations;

- To continually assess policies, programs and procedures in relation to its overall effectiveness in meeting the changing needs and expectations of customers; and

- To achieve financial and performance targets.

Operating goals and objectives may change from year to year as objectives are met and new initiatives become important. The Agency is dedicated to a policy of continuous performance improvement.

AGENCY STRUCTURE

The day-to-day operations of the Agency are managed by the Chief Operating Officer, who reports directly to the Assistant Deputy Minister, Supply and Services Division, of Government Services. The Chief Operating Officer provides business plans and quarterly and annual reports to the Agency's Advisory Board for review and to the Minister of Transportation and Government Services and Treasury Board for final approval.

The current Advisory Board is chaired by the Deputy Minister of Government Services, with representation from both government and non-government bodies. The Assistant Deputy Minister and Chief Operating Officer are ex officio members of the Board.

The Advisory Board adopts an "advisory" role in the affairs of the Agency versus one of decision-making. The primary role of the Board is to:

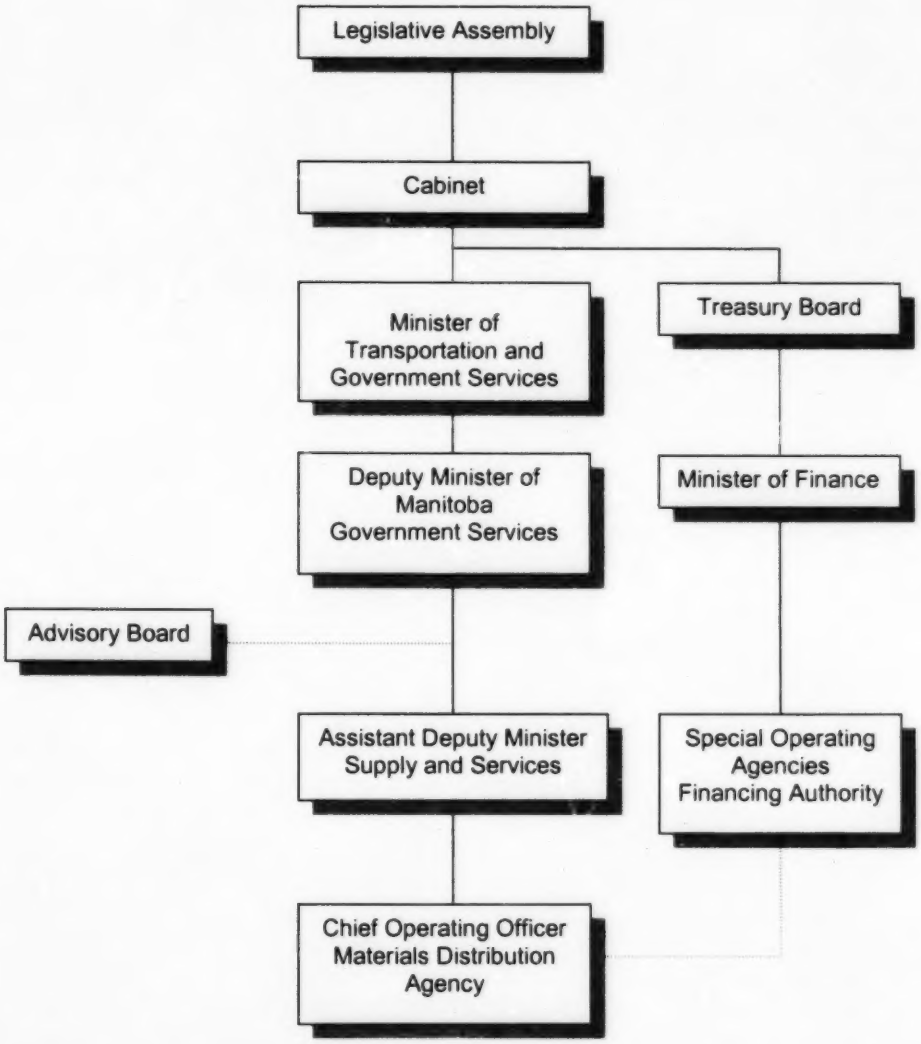
- Offer advice on the Agency's strategic direction and objectives, performance, business practices, marketing strategies, and management and financial reporting requirements;

- Review the Agency's quarterly financial reports, annual Business Plan, Annual Report and any proposed changes to the Agency Charter; and

- Offer support regarding private, public and client sector issues and initiatives.

Financial and operational information and requirements are disseminated to and from Treasury Board through a SOA Coordinator at Treasury Board Secretariat.

The accompanying chart identifies Materials Distribution Agency's accountability within the established structure.



PRODUCTS AND SERVICES

Materials Distribution Agency offers a number of material support services. The backbone of the operation, and its largest revenue source, is from the sale of stocked commonly-used items.

Eight distinct commodity lines were offered in 2000/01. Specific item counts for each commodity line are listed below:

Commodity lines	Line Items
Stationery and office supplies	1,033
Janitorial supplies	311
Laboratory, X-Ray, ultrasound and ECG supplies	386
Home care supplies	748
Public health supplies	125
Reproductive health supplies	36
Office furnishings and new furniture	468
Computer software	514
Total line items	3,621

In addition, the Agency offers several other materials management services including:

Equipment Rental, Service and Repair

The Agency handles over 21,000 individual pieces of 47 different types of home care equipment which are distributed to over 30,000 clients across the province. Service and repair of 2,500 individual pieces of 19 different types of office equipment are also provided to over 500 government clients.

Transportation, Moving and Office Relocation Services

The Agency's Transportation Manager, working in conjunction with Accommodation Development, EDS, MTS, and Workshop Renovations, provides government departments, boards, commissions and agencies with material and equipment moving and transportation services, including the relocation of offices across the province.

Storage and Distribution Services

Warehouse storage services are offered to provide clients with secure storage facilities for items not required on a daily basis. This service also offers inventory tracking and distribution throughout the province.

Disposal Services

The Agency also provides services for material and equipment that is no longer required by the Province. Usable materials are circulated and redistributed to other government departments while items that have no further use are sold by tender or auction or are sent to a recycling company.

OPERATING PERFORMANCE TARGETS

In the Agency's 2000/01 Business Plan, management defined a number of performance targets for the year. These targets, as listed below, set achievement levels for the Agency in a number of areas including its financial objectives, productivity levels and marketing strategies. Target achievement or non-achievement was monitored by management on a regular basis, and appropriate adjustments to operations were implemented as required to attempt to meet the established targets.

Comparisons to performance targets are covered in the following five areas:

1. One-Stop Shopping Option to Broader Public Sector

Target: Maintain a centralized organization allowing one-stop purchasing and warehousing of many diverse product lines.

Performance to Target: Achieved.

	Measures/ Performance Indicators	Baseline Year **Actual** (1994/95)	Previous Year **Actual** (1999/2000)	Report Year **Target** (2000/01)	Report Year **Actual** (2000/01)	Long-term **Target**
Input Measures	# of clients	1,700	2,200	2,300	3,712	2,500
	# of inventory items	3,987	4,150	4,000	3,621	4,000
	# of orders placed through MDA	N/A	82,650	87,000	77,624	90,000
Activity Measures	# of new products added (monthly)	6	8	8	7	8
	Frequency of distribution - catalogues	Annual	Annual	Annual	Annual	Annual
	Frequency of distribution - flyers	Monthly (12 issues)	Monthly (11 issues)	Intranet, on line	Intranet, on line	Intranet, on line
Output Measures	# of sales invoices	N/A	82,650	86,950	81,903	90,000
Outcome Measures	Cost savings in reduction in cheque cutting.	Minimum $26 per cheque vs $6 per ITV - savings of $20/transaction.	Not available due to change in government processes with implementation of SAP.			

The Agency continually expands its product offering to allow clients the opportunity to source one vendor for their commonly-used supplies. As customer requirements are ever changing, the Agency strives to add new products monthly, which is crucial for long term success. New items are advertised in the ***New Product News*** flyer and in our annual catalogue.

The number of inventory items appears to have decreased; the decrease, however, is primarily in the "computer software" category (1,450 reported items in 1999/2000 compared to 514 in 2000/01). We took a good hard look in 2000/01 at what should be considered to be a regular item compared to what should be considered to be a special item, and decreased the reported number accordingly.

The other number that appears to be out of line for the Report Year is the total number of clients (3,712 in 2000/01 compared to 2,200 in the preceding year). How clients are categorized was changed for 2000/01, and it is intended that the current method of categorization be continued in 2001/02. The total number of clients has not changed significantly since 1997 when the warehousing and distribution of medical supplies and equipment was transferred to MDA from the Department of Health. It should be noted, however, that if all individual medical supplies clients were included, both this year and last year, our client number would be enlarged by several thousand again.

2. Inventory - Stocked Response Rates

Target: Maintain average stocked response rates to greater than 99% of all items carried.

Performance to Target: Not Achieved.

	Measures/ Performance Indicators	Baseline Year **Actual** (1994/95)	Previous Year **Actual** (1999/2000)	Report Year **Target** (2000/01)	Report Year **Actual** (2000/01)	Long-term **Target**
Input Measures	# of inventory items	3,987	4,150	4,000	3,621	4,000
	Value of inventory on hand	$1,263	$1,548	$1,500	$1,538	$1,500
	Warehouse space available (sq. ft.)	N/A	47,647	47,647	47,647	47,647
Activity Measures	# of receivings processed	N/A	9,820	14,300	5,135	14,500
	# times inventory turns	5.00	5.23	7.50	5.40	8.00
	# of items on backorder	3.00%	1.50%	0.50%	1.30%	0.25%
Output Measures	STOCKED RESPONSE RATE	97.00%	98.50%	99.50%	98.70%	99.75%
Outcome Measures	Client satisfaction, having product available when required.	Client survey data indicates MDA carries product they need.	Stocked response rate increased with system changes. Still have improvements to make, however, to reach report year and long-term targets.			

The Agency pays significant attention to minimizing its out-of-stock incidents, in an effort to decrease potential back orders. Daily reports are run at the start of the day to monitor the number of items out of stock. These daily ratings are then totaled on a monthly basis, and the average of these monthly rates is calculated to determine the Agency's in-stock rate. Although our stocked response rate is better in 2000/01 than it was the preceding year, we still have a ways to go.

Our inventory turns at 5.40 in 2000/01 is slightly better than 1999/2000, but significantly below our target.

3. Order Turnaround Time

Target: Maintain an average two (2) business days turnaround for 98% of urban orders and an average four (4) business days turnaround for 98% of rural orders.

Performance to Target: Achieved.

	Measures/ Performance Indicators	Baseline Year **Actual** (1994/95)	Previous Year **Actual** (1999/2000)	Report Year **Target** (2000/01)	Report Year **Actual** (2000/01)	Long-term **Target**
Input Measures	Value of inventory on hand (000s)	$1,263	$1,548	$1,500	$1,538	$1,500
	# of orders received	N/A	82,650	87,000	77,624	90,000
Activity Measures	# of orders processed	N/A	82,650	87,000	77,624	90,000
	# of orders shipped	N/A	82,650	86,950	77,624	90,000
Output Measures	Turnaround time for orders - rural (days)	5	5	4	4	3
	Turnaround time for orders - urban (days)	3	3	2	2	1
Outcome Measures	Increased client satisfaction Reduction in client "stockpiling"	Client surveys indicate current delivery meets needs.	Met target on turnaround times for both rural and urban deliveries.			Improved system processes to reduce delivery times and improve client service.

For the Home Care program, the Agency places the fulfillment of these orders in high priority and fills a significant number of these orders on a same day basis due to the very immediate needs that clients have for ostomy and other medical supplies, and for equipment to be used in the home. Use of expedited shipping methods and available pick up service contribute to maintaining effective turn around times.

4. Best Value Pricing

Target: Offer the appropriate product and service at the best value price through economies of scale buying.

Performance to Target: Achieved.

	Measures/ Performance Indicators	Baseline Year **Actual** (1994/95)	Previous Year **Actual** (1999/2000)	Report Year **Target** (2000/01)	Report Year **Actual** (2000/01)	Long-term **Target**
Input Measures	# of competitor catalogues pricing reviewed	1	3	3	3	4
	Cost of goods sold	$5,190	$14,706	$11,665	$14,920	$12,000
	Sales	$6,573	$18,898	$15,693	$19,095	$16,000
	# of clients	1,700	2,200	2,300	3,712	2,500
	Activity Based costing model	N/A	N/A	Study to be completed during year.	Form of ABC done quarterly.	N/A
	# of inventory items	3,987	4,150	4,000	3,621	4,000
Activity Measures	% discount to SAP clients	0.0%	5.0%	5.0%	5.0%	5.0%
	Rebate to RHA clients (% of RHA sales)	0.0%	1.0%	1.3%	1.1%	1.7%
	Gross profit %	20.9%	22.2%	25.0%	21.9%	25.0%
	% Provincial clients of total clients	95%	80%	80%	73%	75%
Output Measures	Sales volumes discounts to RHAs	0	$67	$115	$65	$135
	Sales volumes discounts to qualifying Provincial clients	0	$133	$142	$61	$150
Outcome Measures	Cost savings to clients	$0	$200	$257	$286	$285
	Retention of clients/customer loyalty	Increase in # of clients.	Significant savings to clients. MDA to conduct client survey to determine loyalty.	Increase in # of clients.		Continued savings to clients, rewarding loyalty.

Although the gross profit percentage slipped slightly in 2000/01 compared to the preceding year and is still three percentage points away from our target, the prices charged to our customers are not affected by that slippage. In fact, for the most part, cost savings to our clients is a direct result.

5. Financial Targets

Target: Program's financial performance is consistent with expected results, as indicated in 2000/01 Business Plan.

Performance to Target: Exceeded or met, except for gross profit percentage.

	Measures/ Performance Indicators	Baseline Year **Actual** (1994/95)	Previous Year **Actual** (1999/2000)	Report Year **Target** (2000/01)	Report Year **Actual** (2000/01)	Long-term **Target**
Input Measures	Net income	$105	$685	$649	$957	$635
	# of orders received	N/A	82,650	87,000	77,624	90,000
	Sales	$6,573	$18,898	$15,693	$19,095	$16,000
Activity Measures	% discount to SAP clients	0.0%	5.0%	5.0%	5.0%	5.0%
	Gross profit % achieved	20.9%	22.2%	25.0%	21.9%	25.0%
	% rebate to RHA clients	0.0%	1.0%	1.6%	1.1%	2.0%
Output Measures	Retained earnings (beginning of year)	$35	$2,930	$3,501	$3,415	$4,000
Outcome Measures	Revenue sharing distribution	$0	$200	$525	$525	$300
	Debt repayment	$0	Debt free	Debt free	$0	Debt free

The continual growth in the Healthcare market has resulted in the Agency exceeding its forecasts for both sales and net income for 2000/01.

FINANCIAL PERFORMANCE

The following financial review and analysis compare the actual results for the year ended March 31, 2001, to the projections for the same period and to the actual results for the year ended March 31, 2000. The projected financial statements are those that were finalized in May 2000 as a part of MDA's 2000/01 Business Plan. This review and analysis should be read in conjunction with MDA's audited financial statements for the year presented on pages 23 to 34, and the summarization of key elements from the earnings statements presented in the table below.

All dollar amounts in the review and analysis are in thousands of dollars.

Review of Operations

MDA reported net income of $957 for the year ended March 31, 2001, compared to a projected $649 and actual $685 for the years ended March 31, 2001 and 2000 respectively.

	2001 Actual	2001 Projected	2001 Actual vs. 2001 Projected Increase/ (Decrease)	2000 Actual	2001 Actual vs. 2000 Actual Increase/ (Decrease)
Sales	$ 19,095	$ 15,693	$ 3,402	$ 18,898	$ 197
Cost of goods sold	14,935	11,664	3,271	14,740	195
Gross profit	4,160	4,029	131	4,158	2
Expenses					
Salaries and benefits	1,989	2,100	(111)	1,983	6
Pension benefits expense	(1)	137	(138)	195	(196)
Operating costs	337	368	(31)	349	(12)
Administrative expenses	878	775	103	946	(68)
	3,203	3,380	(177)	3,473	(270)
Net income	$ 957	$ 649	$ 308	$ 685	$ 272

Sales compared to projected sales shows a favourable variance of $3,402, with the majority of the increases coming from warehoused medical supplies and equipment ($468), software and computer supplies ($1,465), and new furniture ($1,900). The largest decrease compared to projections was $271 in moving and freight. It was in the new furniture category that sales took a big jump in 2000/01 compared to 1999/2000 ($2,050 compared to $1,328).

There is no overall significant gross profit percentage variance between the actual 21.79% in 2000/01 and 22.00% in 1999/2000. The actual percentage for 2000/01,

however, falls far short of the 25.67% projected for 2000/01, primarily the result of lower gross profit margins on categories that showed significant jumps in sales (such as software and computer supplies).

Pension benefits expense for 2000/01 is net of an actuarial revaluation and actuarial gain that flowed through the year. Note 2 to the financial statements includes an explanation of how the Agency's pension liability was affected, and how it will operate in the future.

Financial Position

Perhaps the most significant change in MDA's balance sheet is the disappearance of both the investment funds and pension liability amounts related to its pension obligations. Note 2, referred to above, discusses the events that have occurred that help to "clean up" our balance sheet. The $523 remaining net liability has been included in payables and accruals as of March 31, 2001, and the amount that will pay out the remaining net liability has been included in cash and short term investments.

Accounts receivable increased by $689 as of March 31, 2001, compared to the balance one year earlier, primarily the result of more than $1 million in new furniture sales recorded in the last month of the year.

The Agency did not have to use its working capital payable line of credit at any time during 2000/01.

Remaining cash generated by operations was used to purchase capital and other assets ($396) and to pay revenue sharing amounts to the Consolidated Fund ($525).

Ratio Analysis

Ratio analyses comparing actual to projected calculated amounts are provided in the table on the next page.

The actual "return" numbers for 2000/01 exceed the projected rates of return, but are not even close to the banner year numbers posted in 1998/99.

The overall gross profit percentage has remained relatively constant in all three years, but the percentage for each of the years falls short of the targeted percentage for 2000/01.

The strength of MDA's financial position is demonstrated in both its current ratio and debt to equity ratios. As of March 31, 2001, the only long term debt carried by the

Agency is its accrual for severance pay liability, and it has no working capital payable outstanding.

The days sales in receivables ratio for 2000/01 was affected by the large volume of new furniture sales during the month of March 2001, the majority of which was collected in April 2001.

Ratio	March 31			
	Projected	Actual		
	2001	**2001**	2000	1999
Return on total revenue	4.14%	**5.01%**	3.62%	7.31%
Return on average assets	7.21%	**11.42%**	7.72%	19.36%
Gross profit percentage	25.67%	**21.79%**	22.00%	20.43%
Debt to equity	0.85 to 1	**0.70 to 1**	0.74 to 1	1.31 to 1
Current ratio	2.36 to 1	**2.21 to 1**	2.46 to 1	1.79 to 1
Days sales in receivables	34.9 days	**72.2 days**	59.6 days	25.7 days
Inventory turnover on warehoused items	7.50 times	**5.40 times**	5.23 times	7.27 times

The operating results and financial stability exhibited by the Agency's numbers in recent years are the envy of several other SOAs, and would probably be the envy of many private sector organizations as well.

RESPONSIBILITY OF FINANCIAL REPORTING

Materials Distribution Agency
An Agency of the
Special Operating Agencies Financing Authority
Province of Manitoba
Responsibility of Financial Reporting

The Agency's management is responsible for preparing the financial statements and other financial information in the Annual Report. This responsibility includes the integrity and objectivity of financial data and the presentation of the Agency's financial position and results of operations in accordance with generally accepted accounting principles. The financial statements have been audited by The Exchange Group, independent external auditors.

The Agency maintains a system of internal controls throughout its operation that provides reasonable assurance that transactions are authorized, properly recorded and reported, and that assets are safeguarded.

The Advisory Board has scheduled meetings with management to review accounting practices, financial reporting and to discuss audit results. The auditors have free and full access to this Board, to discuss the results of the audit and their views on the adequacy of internal controls and the quality of financial reporting.

Bill Reynolds
A/Chief Operating Officer

Ted Norrington
A/Controller

June 13, 2001

AUDITORS' REPORT

EXG

THE EXCHANGE

chartered accountants

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of Materials Distribution Agency, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2001 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2001 and the results of its operations and changes in cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Exchange

chartered accountants

Winnipeg, Manitoba
June 13, 2001

FINANCIAL STATEMENTS

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

BALANCE SHEET
(In Thousands)
AS AT MARCH 31, 2001

ASSETS

	2001	2000
CURRENT		
Cash and short term investments	$1,787	$1,112
Investments – pension related	0	529
Accounts receivable	3,775	3,086
Accounts receivable – Province of Manitoba (note 9)	288	274
Inventories (notes 2 and 3)	1,538	1,548
Prepaid expenses	26	61
	7,414	6,610
CAPITAL ASSETS (notes 2 and 4)	650	723
OTHER ASSETS (notes 2 and 5)	602	757
	$8,666	$8,090

LIABILITIES

CURRENT		
Payables and accruals (note 6)	$3,355	$2,690
PENSION LIABILITY (note 2)	0	529
SEVERANCE LIABILITY (note 9)	218	210
	3,573	3,429

EQUITY

CONTRIBUTED EQUITY (note 7)	1,246	1,246
RETAINED EARNINGS	3,847	3,415
	5,093	4,661
	$8,666	$8,090

Commitments (note 8)

See Accompanying Notes To Financial Statements

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

STATEMENT OF INCOME AND RETAINED EARNINGS
(In Thousands)
YEAR ENDED MARCH 31, 2001

	2001	2000
SALES, Schedule 1	$19,095	$18,898
COST OF GOODS SOLD	14,935	14,740
GROSS PROFIT	4,160	4,158
EXPENSES		
Salaries	1,989	1,983
Pension benefits expense	(1)	195
Operating costs, Schedule 2	337	349
Administrative expenses, Schedule 2	878	937
	3,203	3,464
INCOME FROM OPERATIONS	957	694
LOSS ON DISPOSAL OF CAPITAL ASSETS	0	(9)
NET INCOME	957	685
REVENUE SHARING – PROVINCE OF MANITOBA	(525)	(200)
RETAINED EARNINGS, beginning of year	3,415	2,930
RETAINED EARNINGS, end of year	$ 3,847	$ 3,415

See Accompanying Notes To Financial Statements

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

STATEMENT OF CASH FLOWS
(In Thousands)
YEAR ENDED MARCH 31, 2001

	2001	2000
CASH PAYMENTS		
Purchase of capital assets	$ (380)	$ (429)
Purchase of other assets	(16)	(841)
Revenue sharing – Province of Manitoba	(525)	(200)
CASH RECEIPTS		
Cash (deficit) generated from operations, net	1,596	(2,144)
Increase (decrease) in cash and short term investments	675	(3,614)
CASH AND SHORT TERM INVESTMENTS		
Beginning of year	1,112	4,726
End of year	$ 1,787	$ 1,112

See Accompanying Notes To Financial Statements

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2001

1. NATURE OF ORGANIZATION

The Government of Manitoba established a central warehouse operation in 1974. Its mandate was to cost effectively meet the needs of departments and certain boards, commissions and agencies of the Crown, for a variety of commonly used items.

Effective April 1, 1993, Materials Distribution Branch was designated as a Special Operating Agency pursuant to The Special Operating Agencies Financing Authority Act, Cap. S185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). The Financing Authority has the mandate to hold and acquire assets required for and resulting from the Agency operations. It finances the Agency through repayable loans and working capital advances. This financial framework enables the Agency to operate in a business-like manner according to public policy expectations.

A Management Agreement between the Financing Authority and the Minister of Government Services assigns responsibility to the Agency to manage and account for the Agency-related assets and operations on behalf of the Financing Authority.

The Materials Distribution Agency continues to be part of Manitoba Government Services under the general direction of the Assistant Deputy Minister, Supply and Services Division, and ultimately the policy direction of the Deputy Minister and Minister.

The Materials Distribution Agency remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided in its charter in order to meet business objectives.

The Materials Distribution Agency is economically dependent on the Province of Manitoba and the Manitoba Regional Health Authorities, deriving most of its revenue and all of its capital financing requirements from the Province.

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2001

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Reporting

The financial statements of the Agency are presented in accordance with Canadian generally accepted accounting principles.

Inventories

Inventories are valued at the lower of cost (as defined by first-in/first-out) and net realizable value.

Capital Assets

Capital assets are recorded at cost and are amortized annually at the following rates and bases:

Computer equipment	- 20%, straight-line basis
Fixtures	- 20%, straight-line basis
Office equipment	- 20%, diminishing balance basis
Rental equipment	- 20%, diminishing balance basis
Warehouse equipment	- 20%, diminishing balance basis
Leasehold improvements	- over 5 years, straight-line basis

Assets that relate to the transfer of the Home Care Equipment and Supplies Program are recorded at cost and are amortized at accelerated rates as follows:

Computer equipment, accelerated	- 33%, straight-line basis
Fixtures, accelerated	- 33%, straight-line basis
Office equipment, accelerated	- 33%, straight-line basis
Warehouse equipment, accelerated	- 33%, straight-line basis
Leasehold improvements, accelerated	- over 3 years, straight-line basis

Non-consumable equipment relating to the Home Care Equipment and Supplies Program are amortized at varying rates in order to reflect the varying periods of useable "life".

Rental equipment	- over 2, 3 or 5 years, straight-line basis

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2001

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Other Assets

Other assets are recorded at cost and are amortized at the following rate on a straight-line basis:

Computer conversion, accelerated	- over 3 years

Pension Liability

Employees of the Materials Distribution Agency are eligible for pensions in accordance with provisions of The Civil Services Superannuation Act. In accordance with an agreement with the Province of Manitoba, Special Operating Agencies (SOAs) are only responsible for the pension liability incurred for their employees from the Agency's date of designation as a SOA. The methodology for calculating the liability was determined in conjunction with the Province, and the Province accepted responsibility for the pension liability for prior service, as well as for any variance resulting from the calculation.

Through March 31, 2001, the Agency deposited an amount equal to its share of the pension liability in a separate investment account with the Treasury Division.

An actuarial valuation report of the Agency's pension liability to its employees from the date of designation as a SOA was recently completed. The report calculated the pension liability as at March 31, 2000 and provided a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarial liability has been calculated on an indexed basis to be $598 as at March 31, 2001.

As at March 31, 2001, the Province has assumed responsibility for administering the SOA's pension liabilities. Accordingly, the pension liability by the Province was reclassified as accounts payable. The Agency will transfer funds equal to the net amount to the Province during the year ending March 31, 2002.

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2001

3. INVENTORIES

	2001	2000
Medical, Lab and X-ray supplies	$ 246	$ 240
Reproductive health supplies	53	69
Medical supplies	447	488
Ostomy supplies	272	190
Equipment consumables	12	12
	1,030	999
Stationery	297	334
Forms	73	92
Janitorial	114	94
Furnishings	18	21
Used furniture	0	5
New furniture	1	3
Office equipment consumables	5	0
	$ 1,538	$ 1,548

4. CAPITAL ASSETS

	Cost	Accumulated Amortization	2001 Net	2000 Net
Computer equipment	$ 43	$ 12	$ 31	$ 35
Fixtures	40	32	8	8
Office equipment	27	19	8	10
Warehouse equipment	110	55	55	46
Leasehold improvements	133	98	35	62
	353	216	137	161
Accelerated				
Computer equipment	48	48	0	0
Fixtures	63	63	0	13
Office equipment	22	22	0	2
Warehouse equipment	61	61	0	21
Leasehold improvements	120	120	0	22
	314	314	0	58
Home Care equipment	1,562	1,049	513	504
	$ 2,229	$ 1,579	$ 650	$ 723

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2001

5. OTHER ASSETS

	Cost	Accumulated Amortization	2001 Net	2000 Net
Computer conversion	$ 858	$ 256	$ 602	$ 757

6. WORKING CAPITAL PAYABLE

The Province has provided the Agency with an authorized line of working capital advances of $800, none of which was used at March 31, 2001 or 2000.

7. CONTRIBUTED EQUITY

Loan Authority – April 1, 1993

The Special Operating Agencies Financing Authority (SOAFA) and the Manitoba Provincial Government entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority of inventory and fixed assets valued at $1,464 required for the continuing operations of the Materials Distribution Agency as at March 31, 1993. The Agency repaid the debt portion of $732 (being ½ of the value of the assets) and recorded the balance, $732, as Manitoba's equity in the Financing Authority as related to the Agency operations.

Loan Authority – April 1, 1997

SOAFA and the Manitoba Provincial Government entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority for the net assets of the HCESP valued at $1,027 as at April 1, 1997. The Agency repaid the debt portion of $513 (being ½ of the value of the assets) and recorded the balance, $514, as Manitoba's equity in the Financing Authority as related to the Agency operations.

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2001

8. COMMITMENTS

Leased Premises

The Agency has entered into a master lease agreement with the Province of Manitoba for rental of facilities at 1680 Church Avenue, Winnipeg, Manitoba, which expires on March 31, 2002. Occupancy charges are $215 payable in semi-annual payments of $107.

The Agency has entered into an ancillary lease agreement directly with the landlord for rental of 8,500-sq. ft. at 1660 Church Avenue, Winnipeg, Manitoba, which expires on March 31, 2002. Occupancy charges are an annual $31, payable in monthly instalments.

The Agency has also obtained 5,790-sq. ft. at 1678 Church Avenue, Winnipeg, Manitoba, wherein the Landlord has entered into an ancillary lease agreement directly with the Agency. The lease expires on March 31, 2002. Occupancy charges are an annual $17 payable in monthly instalments.

Desktop Management Initiative (DMI)

Costs related to leased computer assets, network (PDN) and user fees (SAP, MEBS and WAN) within the Province's managed environment are projected over the next five years:

Fiscal Year	# Units	$
2001/02	42	279
2002/03	43	293
2003/04	44	307
2004/05	45	323
2005/06	46	337

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2001

9. SEVERANCE LIABILITY

Effective April 1, 1998 the Agency commenced recording accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of fifteen years, by the weekly salary at date of retirement, provided the employee reaches nine years of service and retires from the Agency. The estimate is based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees to March 31, 1998. Accordingly, the opening severance pay liability balance as at April 1, 1998 of $254 has been completely offset by a receivable from the Province. There are no terms of repayment for this receivable.

An actuarial valuation of the Agency's accrued severance liability as at March 31, 2000 was recently completed. The liability as at March 31, 2000 was restated to $210 and the receivable from the Province was restated to $274 as a result of the actuarial valuation. There was no effect on the severance benefit expense for the year ended March 31, 2000. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarial liability has been calculated to be $218 as at March 31, 2001.

10. PUBLIC SECTOR COMPENSATION DISCLOSURE ACT

It is a requirement of the Public Sector Compensation Disclosure Act that annual public disclosure be made of individual compensation in an amount exceeding $50 annually to any officer or employee of the Agency. For the year ended March 31, 2001, the following employees received compensation in excess of $50.

Name	Position	2001	2000
Grant Cancilla	Equipment Manager	$ 62	$ -
Don Katz	A/Chief Operating Officer	-	61
Petra Berner-Krieger	Controller	61	59

11. COMPARATIVE FIGURES

In addition to the retroactive restatement to the severance liability per Note 9, certain comparative figures from the previous year have been reclassified to conform with the current year's financial presentation.

Schedule 1

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

SCHEDULE OF SALES
(In Thousands)
YEAR ENDED MARCH 31, 2001

	2001	2000
Warehoused Items		
Medical, Lab and X-ray	$ 1,970	$ 1,941
Medical forms	131	81
Reproductive	330	328
Medical supplies	3,396	3,088
Ostomy supplies	1,487	1,344
Equipment consumables	109	97
	7,423	6,879
Stationery	1,879	1,981
Forms	180	204
Janitorial	633	657
Furnishings	103	120
Office equipment consumables	101	140
Software and computer supplies	1,865	2,160
Miscellaneous	131	47
	12,315	12,188
Direct (factored sales)		
Stationery	760	641
Medical, Lab and X-ray	121	218
Janitorial	267	218
Furniture, new	2,050	1,328
	3,198	2,405
Other Revenue		
Oxygen contract	0	275
Home Care equipment rentals	1,581	1,618
Office equipment – copy centres	805	800
Office equipment – maintenance program	190	249
Used furniture	25	19
Disposal	38	37
Moving and freight	779	943
Storage	69	73
Interest	95	70
Miscellaneous	0	221
	3,582	4,305
TOTAL SALES	$19,095	$18,898

Schedule 2

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

SCHEDULES OF OPERATING COSTS AND ADMINISTRATIVE EXPENSES
(In Thousands)
YEAR ENDED MARCH 31, 2001

	2001	2000
OPERATING COSTS		
Freight and travel	$ 8	$ 5
Occupancy	300	311
Maintenance and supplies	29	33
	$ 337	$ 349
ADMINISTRATIVE EXPENSES		
SOAFA fees	$ 2	$ 2
Professional services	99	7
Amortization	266	307
Bad debts	0	102
Computer	363	380
Office	62	46
Promotion and marketing	63	40
Telephone	22	16
Training and education	1	37
	$ 878	$ 937